Management Economics' Optimization of Enterprise Organizational Structure

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ABSTRACT

Managerial economics is concerned with decision-making within an organization and how the principles of economics can be applied to this endeavor. The current research sought to determine (1) how decision-making power is distributed within organizations, (2) what type of organizational structures firms employ, and (3) what factors affect the type of structure the organization will adopt. The research was desk research that took a case study perspective by analyzing a small number of firms. Four firms were chosen; Disney, Amazon, Netflix, and Genesis Healthcare. The results of the information synthesis showed that three factors were crucial in determining the type of organizational structure that was adopted, including the size of the company, the products of the company (including the number of products offered), and the characteristics of the customers. This research will be helpful to businesses on a practical level by helping them understand how their structure will be impacted and providing guidelines on how to employ managerial economics within the context of organizational structure. The findings have shown that two factors are critical in determining the ideal organizational structure; the size of the organization and the products or services offered. However, the latter appears to be more important than the former.

Keywords: *Managerial economics, product-oriented, customer-oriented, organizational structure.*

1. INTRODUCTION

Managerial economics as a field of practice has existed for decades. However, due to its broad scope, the field is still in a state of flux as it expands and grows to encompass more areas. Various definitions of managerial economics are given. For instance, Wilkinson [1] defines managerial economics as "the application of economic theory and methods to business decision-making" (p. 7). From the definition, the broad scope of managerial economics is evident. This branch of management is concerned with all decisions that a business makes. Thus, managerial economics necessarily includes economic theories and concepts, such as the theory of the firm, price theories, theories of demand and supply, and theories relating to market structure, positioning, and competition [2]. Managerial economics as well includes decision sciences. Some aspects of this intersection include optimization, statistical forecasting, numerical analysis, risk and uncertainty evaluation, and discounting methods. All these functions are related to decision-making in business functions, such as production, operations, marketing, human resource management, finance, and business accounting. Thus, managerial economics is a significantly broad field.

Due to the size and scope of the discipline – coupled with the ever-evolving business and economic environments, various problems are still to be completely solved. For example, the rapid pace of technological innovations has brought to light the need for managerial economics in the decision-making process of how best to incorporate various technologies into organizational processes. These decisions are firm-specific. The purpose of managerial economics is not to provide a one-size-fits-all model of decision making, since each firm faces a unique combination of internal and external forces that determine decision-making processes and the ultimate decisions to be made for their growth [3]. Rather, managerial economics seeks to develop a framework or perspective that will aid businesses in conceptualizing their particular environment and make the most optimal decisions for their benefit. Another significant problem that managerial economics is continually facing is pricing strategies. As the business environment grows more competitive, firms find themselves needing to develop more complex pricing strategies that balance their operational costs and maximize profits.

The current paper will be concerned with enterprise organizational structure. That is, how firms structure their business hierarchy, how decision-making power is distributed, and the factors that affect organizational architecture. The structure of an organization is integral to its success. In a dynamic and constantly changing market, firms must continually make decisions. Moreover, these decisions must be fast and well-informed. Therefore, the structure of an organization facilitates the decision-making process, which is an integral part of managerial economics. In line with this, the current research will seek to answer the following research questions:

1. What types of organizational structures do firms employ?
2. How is decision-making power distributed within the organization?
3. What factors affect the type of structure the organization will adopt?

The choice of these companies is driven by the fact that they are visible. As such, there is likely to be more information regarding their organizational structure than there would be for more obscure businesses. Since this will be desk research, data on the organizations chosen will primarily be accessed online from journal articles, books, and other sources. This information will be analyzed in-depth to determine how to use managerial economics to determine the existing organizational structure. The significance of this research lies in the fact that organizational structure is a key element to a firm's long-term success. Managerial economics is concerned with how businesses make decisions, and organizational structures are simply networks of decision-making power. By analyzing how companies are structured, the principles of managerial economics can be applied to show how structure impacts decision-making, and, ultimately, how it impacts revenues, sales, and long-term growth and sustainability.

2. MANAGERIAL ECONOMICS AND ORGANIZATIONAL STRUCTURE

Company size is vital to an organization's ideal structure and hierarchy. A rule of thumb used is that, in business, the larger the company (regarding assets, employees, products, or geographical scope), the more complex its structure. The reason for this is that at the executive level, the entire organization must achieve synergy to ensure that all its disparate operational and business units are functioning optimally within the structure of the enterprise (Froeb et al., 2018). Therefore, the company must ensure that the input in its various business units is geared towards maximizing the total output at the strategic level, not the operational level. Managerial economics comes into play when management is deciding how to structure the organization's hierarchy. According to Brickley et al. [3] , managerial economics insofar as it relates to organizational design is based on three key aspects; how decision-making ability is assigned within the company, the rewards and incentive systems of the company, and performance evaluations of business units and employees. Large companies require different and more complex organizational architectures due to the complex structures essential to their operation. Therefore, managerial economics will consider the size of the company when optimizing organizational structure and architecture.

The research will be a desk research case study analysis. Convenience sampling will be used to identify companies that will be the focus of this study. The organizational structures that those companies have adopted will be analyzed within a managerial economics context. Four companies will be selected for further analysis. The companies include Disney, Amazon, Netflix, and Genesis Healthcare (Table 1).

Table 1. Summary of the chosen companies' characteristics (assets, revenues, profits, employees, and geographical scope of operations).

	Assets (in billion $)	Revenues (in billion $)	Profits (in billion $)	Employees	Geographical scope
Disney	201.549	69.388	-2.864	223,000	Global
Amazon	321.2	386.064	21.331	1,335,000	Global
Netflix	39.28	25	2.761	12,135	Global
Genesis Healthcare	4.662	4.565	0.014	68,700	United States, China

2.1. Disney's Organizational Structure

Disney is arguably one of the largest entertainment companies in the World. The company was founded by Disney Brothers, Walt and Roy in 1923 and has now developed into a global conglomerate. As of 2020, the company's assets are more than 200 billion U.S. dollars and revenues close to 70 billion U.S. dollars. As a multinational company, managerial economics principles are evident in the company's organizational structure [4]. Specifically, Disney's organizational structure follows a product organizational structure. As detailed above, this type of structure is characterized by business divisions that are centered on various products developed by the organization. In Disney's case, the company is organized into two primary business units. Disney Media and Entertainment Distribution division is the division that is responsible for all media entertainment content around the globe. The division is further divided into three segments. Walt Disney Studios is responsible for the company's film entertainment activities and studios, including film production studios and theatrical entertainment. Disney General Entertainment division is solely concerned with the organization's television content. ESPN and Sports Content unit is focused on live sports programming. Disney's second business division is the Disney Parks, Experiences, and Products unit. This segment deals with consumer products (including merchandise), theme parks, cruise lines, and publishing. Therefore, the company's structure reflects the prioritization of its products.

Managerial economics is evident in Disney's organizational structure. The company's organizational structure has been optimized for product development and distribution. From a managerial economics point of view, Disney has taken into account its size, reach, and product initiatives in the design of its organizational structure. As detailed above, the size of a company contributes to the discussion about the type of organizational structure it will adopt. Managerial economics dictates that the size of a company will dictate its structure. In Disney's case, its size is large; indeed, one of the largest in the world. Furthermore, Disney owns numerous self-contained businesses that it has acquired over the decades [4]. However, even though these subsidiaries are a part of Disney, they operate fairly independently. Due to this, each subsidiary may have its internal organizational structure that is optimized to effectively operate and compete in its specific operating environment. This decision to adopt this structure is evidence of managerial economics at work.

Aside from the size of the company, the products offered by Disney dictate its managerial structure. The company is global, with numerous acquisitions and subsidiaries across the world. Content creation subsidiaries tend to make content specific to their region. So, for example, content made by Star India, a Disney subsidiary operating numerous channels in India, will be different from content made by Marvel Studios, another subsidiary focusing on the comic book franchise. Similarly, Disney's theme parks will offer different services from its cruise ship lines, and various ESPN channels focus on different sports. What is more, the products and services offered by the subsidiaries are largely independent. Therefore, it is logical that the organizational structure of the company will be product-oriented. This decision is an excellent example of managerial economics applied to organizational structure and architecture. As Brickley et al. [3] note, decision-making rights, reward methods, and performance evaluation are the primary focus of managerial economics in organizational structure. Regarding Disney, decision-making rights are mostly left to the subsidiary business units insofar as products and services are concerned. The reason for this is that there are too many products and services offered to a variety of markets and demographics to effectively exercise centralized control. For example, the decision to add or remove a particular attraction or ride at, say, Shanghai Disney Resort would not warrant the involvement of the C-Suite executives. Thus, Disney's organizational structure is oriented around its products.

2.2. Amazon's Organizational Structure

Amazon is among the top five largest information technology companies in the world, competing with firms, such as Apple, Google, Microsoft, and Facebook. Founded in 1994, Amazon has emerged as a powerhouse in the field of IT. Currently, the company possesses assets above $300 billion, and as of 2020, the company's revenues were at $386 billion [5]. As a multinational corporation, Amazon, like Disney, has numerous subsidiaries. However, the organization's structure is significantly different from that of Disney. The primary reason for this is the fact that the two organizations develop and sell significantly different products. Amazon's business entails cloud computing services, e-commerce, digital streaming, and artificial intelligence. However, the company's e-commerce business is its most valuable revenue earner. Amazon sells products online (and provides logistics and delivery services) and through its physical stores. Therefore, the company's primary business deals with physical products. Due to this, according to the enterprise's annual general report [5] , it is organized into three divisions; that is, North America, International, and AWS (Amazon Web Services). From this, the company's organizational structure prioritizes geography.

The principles of managerial economics are evident in Amazon's organizational architecture. The three segments indicate the company uses a geographical organizational structure. Its physical business, namely e-commerce business activities, is classed into two segments, North America and International [5]. The international segment is further divided into regions and countries in which Amazon operates. By doing so, Amazon can effectively optimize its supply chain and logistics networks to ensure maximum reach for its products. Furthermore, an organizational structure that takes into account regional differences is beneficial for

Amazon due to the differences in laws and regulations among different countries. The third business segment is Amazon Web Services [5]. Unlike its physical business, AWS is primarily a virtual service and is concerned with the provision of cloud computing services. Due to the nature of internet services, it is unlikely that AWS services can be managed using a geographical organizational structure. Therefore, it has its function-based rather than geography-oriented division. Thus, the decision to use a geographical organizational structure for its physical business and a functional structure for its cloud computing services is logical and is a product of a managerial economics perspective.

2.3. Netflix's Organizational Structure

Netflix is the world's leading video-on-demand company in the world. Netflix provides direct-to-consumer streaming services for films and television shows. Founded in 1997, Netflix began as a DVD sales and rental company with physical stores. However, with the introduction of streaming services, the company pivoted into streaming. Currently, it not only distributes entertainment media but is involved in producing programming that is exclusive to its platform. As of 2020, Netflix had a total asset base of over $39 billion and revenues of $25 billion [6]. Netflix's organizational structure is primarily functional. According to the company's 2021 proxy statement from its annual general meeting of stockholders, Netflix's executives are categorized according to business function. The firm has eight executives, including two co-CEOs, chief legal officer, chief talent officer, chief financial officer, chief operating officer (and product officer), chief marketing officer, chief communications officer, and chief content officer [7]. Compared with the structure of Disney, although the two companies mainly operate in the same industry, the differences are still obvious. Here, the principles of managerial economics are evident and can be exemplified by drawing comparisons between Netflix and Disney. The most significant difference between the two companies is in the presence (or, in Netflix's case, absence) of subsidiaries. Disney's products are developed and distributed through numerous subsidiaries in different regions of the world. As such, the company necessarily has to give its regional executives greater leeway and more decision-making authority due to region-specific concerns. For example, Disney's Star India is focused on creating content for the Indian market, and the executives of the subsidiary are best placed to understand the culture of the market. Therefore, Disney's organizational structure can only be optimized by developing it around its products. On the other hand, Netflix has no subsidiaries. The company produces content and distributes it directly to its consumers who have paid subscription fees. Additionally, compared to Disney, Netflix has only one type of product while Disney has several. As such, it would not make sense for Netflix to create an organizational architecture that is centered on its products.

Given the above, Netflix's organizational structure is function-oriented. The company can have a structure where departments handle different business functions, such as legal (incorporating local and foreign regulations), talent (dealing with human resources), finances, operations, marketing, communications, and content. The structure adopted by Netflix is a result of a comprehensive analysis of its operating environment. As such, it provides an excellent case study of the firm's use of the principles of managerial economics in enterprise organizational structure.

2.4. Genesis Healthcare Inc.'s Organizational Structure

Genesis Healthcare Inc. is among the largest health care service providers in the country. The organization was founded in 1985, and since then, it has grown and differentiated into 357 skilled nursing facilities and 24 assisted/senior living facilities. In 2019, the company generated $4.9 billion in revenues [8]. Genesis provides "services [that] focus primarily on the medical and physical issues facing elderly patients and are provided by the employees of our skilled nursing facilities, assisted/senior living communities, integrated and third-party rehabilitation therapy business, and other ancillary services" [8]. Genesis' organizational structure is primarily client-oriented. This type of organizational architecture focuses on groups of consumers, with the purpose being to offer similar services to customers who have similar needs. It is similar to a product-oriented organizational structure. However, the key difference is that the latter is concerned with streamlining the product development process while the former focuses on categorizing customers into groups that require similar services for easier and faster service provision.

Genesis' organizational structure is grouped into three, inpatient services, rehabilitation therapy services, and all other services. Inpatient services are further divided into skilled nursing facilities and assisted/senior living facilities. The former provides high-acuity medical care, specializing in elderly patients, while the latter provides accommodations, meals, activities, security, housekeeping, and daily living assistance to their elderly clients [8]. The rehabilitation therapy business segment provides services, such as speech therapy, physical and occupational therapy, and respiratory therapy. Genesis has over 1,200 facilities in the country dedicated to providing rehabilitative care[8]. The other services business segment focuses on activities, such as physician services, staffing services, consultancy services, and other healthcare-related activities. From this, it is evident that the organizational architecture of the business is customer-oriented.

The principles of managerial economics are evident in how Genesis Healthcare is structured. In this instance, the overriding priority used to determine the organization's structure is the services offered to clients. As Genesis states in its annual general report, it provides medical care through a multidisciplinary team. As such, decision-making is driven by the needs of the customers, not the needs of the business. Decision-making power is delegated to the multidisciplinary teams that interact with patients rather than with administrators. Furthermore, the focus of the business is elderly patients, those who require assisted living, and those who require rehabilitation services. Thus, for the organization, adopting an organizational model that is customer-oriented is far easier and more effective than other alternatives due to the limited number of services offered. It is easier for the company to focus on groups of clients and provide services accordingly. Such a decision is a prime example of managerial economics within the organizational structure.

3. RESULTS

The principles of managerial economics are evident in the organizational structures of the four companies, and the result is an improvement in the companies' products and operations. Disney's organizational structure is product-oriented, and as such, it allows the company to produce content that is specific to the regional or national market to which it caters. Two examples are important in showing Disney's improvemen, the construction of Disneyland Paris, and Hong Kong Disneyland [9]. Disney had long been accused of cultural imperialism in its overseas resorts. Its theme parks had been criticized for attempting to import American culture,which tended to clash with local cultures. Disneyland Paris is one example of this. The theme park required employees to speak English, despite the fact that the resort was located in France. Regulations on dress and appearance were not well-accepted in French culture, which values individual liberties and expression. Moreover, the working conditions were only up to American standards, which are far below French standards. As a result, the Paris theme park suffered numerous workers' strikes and low profits [9]. A few years later, when Disney sought to open a theme park in Hong Kong, it used managerial economics principles to evaluate the local culture to ensure that the park did not offend cultural sensitivities. For example, Disney incorporated the principle of feng shui, a principle of spatial arrangement that is held in high regard in Chinese culture. Food served in the park was local cuisine, and elements of numerology and local beliefs (such as avoiding the number 4, utilizing red colors, and using boulders to symbolize stability) were incorporated. The design of Hong Kong Disneyland is an excellent example of managerial economics at play [9]. Since Disney concentrates on products, and different products appeal to different regions, it is logical that Disney would learn from its mistakes and develop products that suit the intended market.

Table 2. Summary of the managerial economics approach to the design of Disneyland Paris and Hong Kong Disneyland

	Disneyland Paris	Hong Kong Disneyland
Food	Fast-food/American food	Local Chinese cuisine
Employees Language	Only English/Mandatory	Mandarin or English
Employee dress	American regulations/perspective	Preference for local attire
Theme park design	Facilitates American culture and conventions	Facilitates Local Chinese culture

Managerial economics at Amazon has led to improvements as well. Amazon's organizational structure is geographically focused since the larger part of their business involves commerce and delivery of physical products [10]. One area of managerial economics is cost estimation. Managerial economics seeks to minimize the costs of services to maximize profits. Accordingly, Amazon has, over the last decade, been steadily improving its logistics services. In 2013, the company did not handle any of the shipping of its products, preferring to outsource transportation to companies such as UPS and FedEx [10]. However, at present, the firm has over 50 Boeing 767 cargo craft, over 6,000 shipping containers, approximately 20,000 leased vans for last-mile logistics, over 140 million square feet of storage space, and over 50 hubs for sorting and distributing products [10]. All of these investments have been made due to the managerial economics decision to minimize costs. Furthermore, Amazon's organizational structure being geographically oriented helps improve the company's operations since it allows the company to structure its delivery services per region and per country.

Netflix's organizational structure is ingenious, and is evidence of managerial economics being used to discover a novel way to make profits. Netflix is a subscriber-based direct-to-consumer streaming service [11] . Due to this, the company significantly reduces its costs since it does not have to go through conventional distributors such as network television stations or companies such as Sony, Paramount, MGM, and others [11]. Figure 1 below visualizes this approach. In essence, Netflix's marginal costs are almost zero, since the company only incurs a miniscule insignificant cost to add one more subscriber to its platform. Since the company's costs vis consumers are largely constant, the larger share of Netflix's money goes into the production of content [11]. As such, Netflix's organizational structure is optimized for the production of this content, including talent, production, and content divisions. This approach improves the company by streamlining its operational processes.

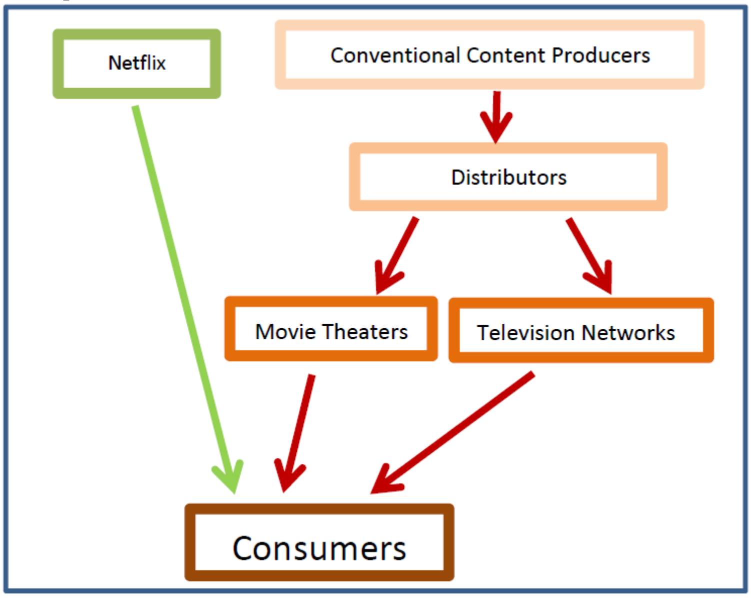

Figure 1. Netflix's cost savings from its direct-to-consumer business model.

Genesis Healthcare's organizational structure as well shows the use of managerial economics principles. Genesis uses a customer-oriented organizational structure, meaning that it is organized around various groups of customers. Being a healthcare firm, Genesis recognizes that it offers services to a select group of clients; that is, the elderly. Furthermore, Genesis provides services to a subset of this population; that is elderly patients who are in need of assisted living services, rehabilitation therapy, and skilled nursing facilities. Due to this, the company's organizational structure is optimized to provide services to this population. The structure improves the organization by allowing it to easily scale up and expand, since each new location can be set up fairly easily. Moreover, Genesis can more easily engage its target market.

4. COMPARISON OF ORGANIZATIONAL STRUCTURES

This study has examined four companies in-depth to determine how the principles of managerial economics have been implemented in the formation of the organizations' structures and decision-making hierarchies. Table 2 below presents a summary of the organizational structures of the four companies.

Table 3. Comparison of the Companies' Organizational Structures.

	Organizational Structure	Reasons
Disney	Product organizational structure	Numerous subsidiaries catering to different markets and countries A diverse number of products
Amazon	Geographical and product organizational structure	Primary business is physical(logistics, deliveries) AWS is online, hence no geographical boundaries.
Neflix	Function-oriented organizational structure	One category of products
Genesis Healthcare	Customer-focused organizational structure	Medical services depend on the customer It is easier for the firm to adopt a structure that facilitates service provision

5. CONCLUSIONS

The four companies assessed here include Disney, Amazon, Netflix, and Genesis Healthcare. The findings have shown that two factors are critical in determining the ideal organizational structure, the size of the organization and the products or services offered. However, the latter appears to be more important than the former. Disney follows a product organizational structure while Amazon's architecture is geographical. Moreover, Netflix is function-oriented while the enterprise structure of Genesis Healthcare is customer-centered. The current research has significant implications for practice. The organizations that have been analyzed here have evolved over several decades into what they are today. New and small businesses that are just starting up can learn valuable lessons on the organizational structure to enable them to be more efficient and effective.

The study faced two major limitations. First, there was a dearth of information about the companies' in-depth workings. The majority of the information was gathered from the organization's filings and annual general reports with the Securities Exchange Commission. Outside of these documents, however, there is scant information on the specific motivations behind the adoption of particular organizational structures. The second limitation is the small number of firms that were analyzed. The study looked at only four companies and their organizational structures. Thus, one recommendation for future research would be to include more firms so that patterns in enterprise organizational structures can be identified and the principles of managerial economics can be better applied. Second, future studies should as well look into the possibility of conducting more in-depth qualitative studies at the firm level to gather more pertinent and up-to-date information for analysis.

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